Behind the surge on Wall Street

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Over the past month the major US stock exchanges have risen sharply. On Friday, the Dow Jones Industrial Average closed at over 8,000 for the first time since February 9. It has risen more than 20 percent since it plumbed a twelve-year low on March 9. The Nasdaq Composite Index and the S&P 500 have also risen more than 20 percent since early March.

Friday completed the biggest four-week rise in the Dow since 1933.

There is undoubtedly a technical correction at play in the rally. There had been indications that the market was heavily oversold and many investors and economists felt that a rebound was probable within the context of the bear market.

However, this by itself cannot explain the rally, especially since it has occurred in the absence of any significant economic indicators of recovery either in the US or internationally. On the contrary, figures on joblessness, industrial production, exports, world trade and overall growth have been almost uniformly grim and worse than anticipated. On Friday, the stock market rose in spite of a new US jobs report showing the highest level of unemployment since 1983.

The basic reasons must, therefore, be political.

The surge in the stock market shows that the American ruling elite is confident that the Obama administration will do everything in its power to protect the interests of the banks and finance capital.

First, there was Treasury Secretary Timothy Geithner's March 23 unveiling of the administration's plan to offload the banks' toxic assets. The markets had been steadily rising in anticipation of this announcement.

It should be recalled that when he first presented the administration's bank bailout plans the previous month (February 10), Geithner was roundly criticized for being vague as to precisely how the banks' losses were to be recovered. That announcement triggered a sharp sell-off that continued throughout the rest of February.

This time, Geithner made it clear that the government would provide unlimited funds to purchase the toxic assets of the banks at inflated prices, using taxpayer money. Even better, from the perspective of the finance industry, the plan was structured so as to guarantee big profits for hedge funds and other investment firms that participated in the scheme. In fact, Wall Street insiders had played a direct role in crafting the plan.

The new Wall Street bailout palpably boosted the confidence of the financial elite. On the day of Geithner's announcement, Wall Street celebrated with a demonstration of euphoria and greed, pushing the Dow up 497 points. Since then, the share values of the major banks and finance houses have paced the stock market rally.

Geithner's March 23 announcement coincided with the Obama administration's intervention into the scandal over lucrative bonuses awarded to traders and executives at the bailed-out insurance giant, American International Group (AIG). Obama made it clear that he would not bow to what the media derisively referred to as "populist" anger, and that he would oppose any serious limits on executive compensation.

To reassure Wall Street that his administration had no intention of limiting executive pay or otherwise challenging the wealth and prerogatives of the financial aristocracy, Obama hosted a meeting of the top banking CEOs on March 27. The bankers left the White House praising Obama for his cooperation, one noting that "we are very much aligned with the administration."

Then came Obama's restructuring plan for General Motors and Chrysler. The markets reacted positively because, first, it demonstrated that industrial policy would remain completely subordinated to the interests of Wall Street and second, because it signaled an intensification in the exploitation of the working class through mass layoffs, wage cuts and the destruction of health benefits and pensions.

The banks and big investors have been further cheered by repeated assurances from Obama that his administration will undertake major cuts in social programs—including Social Security, Medicare and Medicaid. Obama is promising that the working class will pay for the looming fiscal disaster resulting from the multi-trillion dollar bailout of Wall Street.

Finally, there was the announcement Thursday by the Financial Accounting Standards Board (FASB) weakening "mark-to-market" accounting rules and allowing banks to value their toxic assets at inflated prices. This was not only an immediate boost to banks' balance sheets and reported profits, it also showed that the government will give Wall Street a green light to continue the same methods of fraud and double bookkeeping that triggered the breakdown of the financial system in the first place.

But for all the joy on Wall Street, the market remains extremely volatile. Despite the bailout plan, none of the underlying problems caused by billions of dollars of “toxic”, that is, worthless, financial assets, has been resolved either in the US or internationally. Consequently, the market remains highly vulnerable to adverse developments which could see a reversal as dramatic as the present rise.

One lesson of the past month is that the fate of Wall Street and the fate of the masses of people move in opposite directions. Rising stock prices do not herald an improvement in the conditions facing the working class, as the continuing torrent of layoffs demonstrates.

None of this affects the prostration of the middle class liberals and so-called "lefts" before the Obama administration. In truth, they are comforted by the improvement in their own investment portfolios.

Nothing could more clearly demonstrate the class character of the Obama administration than Wall Street's orgiastic enthusiasm for its right-wing policies. Wall Street is celebrating the fact that it has, in the Obama administration, a completely reliable and docile instrument of its interests.

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